

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: IES UTILITIES INC.	DOCKET NO. WRU-98-39-151
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ORDER GRANTING REQUEST FOR WAIVER

(Issued March 21, 2001)

On October 6, 2000, IES Utilities Inc. (IES) filed with the Utilities Board (Board) a request for a two-year extension of a waiver of two of the electric flexible rate rules, 199 IAC 20.14(3)"b" and "c." The initial waiver was granted by the Board in this docket on December 23, 1998, and extended for one year on December 30, 1999. The current waiver was to expire on December 31, 2000. However, the Board on November 21, 2000, granted a temporary waiver to continue the status quo pending a decision on the current extension request. The temporary waiver expires 30 days after the Board's final order in this docket.

The flexible rate rules at issue provide that the ceiling for all discounted rates shall be the approved rate on file for the customer's rate class and that the floor for the discount rate shall be equal to the energy costs and customer costs of serving a specific customer. The Ferro-Sil contract is unique because it bases the price of electricity on a portion of Ferro-Sil's operating costs, not IES' cost of service to provide electricity. The price paid by Ferro-Sil for electricity will vary depending on its

operating costs and could be above or below both the price ceiling and price floor of the flexible rate rules.

The Board established a procedural schedule and set a hearing by order issued October 17, 2000. The Consumer Advocate Division of the Department of Justice (Consumer Advocate) and IES each filed prefiled testimony and exhibits. On November 21, 2000, the Board issued an order continuing the hearing until January 23, 2001. IES filed late-filed exhibits subsequent to the hearing on February 6, 2001. Consumer Advocate and IES each filed post-hearing briefs.

Consumer Advocate has consistently objected to the waiver of the flexible rules price floor. Consumer Advocate remains concerned IES will seek recovery of any rate discounts to Ferro-Sil from other customers in a future rate proceeding.

IES previously agreed to absorb any discounts below the price floor. However, IES has not agreed to absorb discounts between the price floor and its tariffed rate. IES pointed out that pursuant to 199 IAC 20.14(5), such issues are determined in a rate proceeding.

The Board continues to view any recovery of discounts as a rate issue, not an issue to be decided in waiver proceedings. Much of the testimony addressed the issue of proper computation of the price floor in the flexible rate rules. Consumer Advocate and IES disagreed on the costs that should be included in the computation and whether nuclear costs at the Duane Arnold plant should be used in determining the average cost of energy. Because the recovery of any discounts will not be

decided in this proceeding, the Board will not decide here what costs are appropriate to include in calculating the energy and customer costs pursuant to the flexible rate rules. Customers are not at risk if prices fall below the price floor because IES has agreed its shareholders would absorb those amounts. While IES has not agreed to absorb discounts for amounts between the floor and tariffed rate, issues related to any recovery of discounts may be raised by IES and Consumer Advocate in a subsequent rate proceeding.

There was a concern raised that other customers might be subsidizing the Ferro-Sil discounts through operation of IES' energy adjustment clause (EAC). IES submitted a late-filed exhibit showing how it calculates the EAC formula denominator and revenue deficiency factor. Ferro-Sil's kWh usage is included in the EAC denominator and the revenue deficiency factor is based on kWh usage rather than dollar amounts. (Tr. 184; IES Exh. 9). Because the calculations are done in this manner, there is no evidence to suggest any subsidization through the EAC.

Consumer Advocate also argued the Ferro-Sil contract was unreasonably discriminatory. While this contract is unique, IES is required under the flexible rate rules to offer this contract to any direct competitor of Ferro-Sil. The Ferro-Sil contract is consistent with the flexible rate rules to the extent that IES has assumed the risk and has agreed not to seek recovery for the discount beyond that which is allowed under the flexible rate rules. The contract is not unreasonably discriminatory when viewed in the context of the Board's flexible rate rules.

The Board will continue to require IES to file certain information on a quarterly basis so the Board and Consumer Advocate can analyze the contract prices and IES's production costs. IES is to provide its calculations used to determine Ferro-Sil's rates, along with a breakdown of what IES considers to be its production costs, including energy costs and customer costs. Production costs are to be submitted which both include and exclude costs associated with the Duane Arnold plant so a comparison can be made.

IT IS THEREFORE ORDERED:

1. The request for waiver filed by IES Utilities Inc. on October 6, 2000, is granted.
2. IES shall continue to file the information identified in this order on a quarterly basis.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Sharon Mayer
Acting Executive Secretary, Asst. to

/s/ Diane Munns

Dated at Des Moines, Iowa, this 21st day of March, 2001.